

**VISIONQUEST NATIONAL, LTD. AND  
SUBSIDIARIES AND VISIONQUEST NONPROFIT  
CORPORATION**

**YEARS ENDED JUNE 30, 2017 AND 2016**

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND  
VISIONQUEST NONPROFIT CORPORATION**

**YEARS ENDED JUNE 30, 2017 AND 2016**

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Independent Auditors' Report

Board of Directors and Management  
VisionQuest National, Ltd. and Subsidiaries and  
VisionQuest Nonprofit Corporation  
Tucson, Arizona

We have audited the accompanying consolidated and combined financial statements of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation, which comprise the consolidated and combined balance sheets as of June 30, 2017 and 2016, and the related consolidated and combined statements of operations, shareholders' deficiency and cash flows for the years then ended, and the related notes to the consolidated and combined financial statements.

**Management's Responsibility for the Consolidated and Combined Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated and combined financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated and combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the City of Philadelphia Subrecipient Audit Guide. Those standards and the City of Philadelphia Subrecipient Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated and combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated and combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated and combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## Opinion

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation as of June 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Substantial Doubt about the Company's Ability to Continue as a Going Concern**

The accompanying consolidated and combined financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the consolidated and combined financial statements, the Company incurred a net loss of \$690,000 during the year ended June 30, 2017, and, as of that date, had a working capital deficiency of \$7,128,000 and deficit net worth of \$7,852,000. Management's evaluation of the events and conditions and management's plans regarding those matters are described in Note 16. The consolidated and combined financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated October 9, 2018, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation's internal control over financial reporting and compliance.



Tucson, Arizona  
October 9, 2018

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND  
VISIONQUEST NONPROFIT CORPORATION**

**CONSOLIDATED AND COMBINED BALANCE SHEETS**

**JUNE 30, 2017 AND 2016**  
**(in thousands)**

<b>ASSETS</b>			
		<u>2017</u>	<u>2016</u>
Current assets:			
Cash and cash equivalents	\$	520	\$ 8
Accounts receivable, net		3,853	5,456
Inventory		-	29
Prepaid expenses and deposits		<u>648</u>	<u>804</u>
Total current assets		5,021	6,297
Property and equipment, net		3,333	3,581
Other assets		<u>461</u>	<u>452</u>
	\$	<u><u>8,815</u></u>	<u><u>\$ 10,330</u></u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
Current liabilities:			
Checks to be funded	\$	170	\$ 246
Note payable, lender		2,826	3,230
Current portion of long-term debt		2,449	1,780
Current portion of capital lease obligations		258	372
Accounts payable		3,252	3,435
Accrued expenses		2,943	2,773
Deferred revenue		-	342
Other current liabilities		<u>251</u>	<u>416</u>
Total current liabilities		<u>12,149</u>	<u>12,594</u>
Long-term debt, net of current portion		4,518	4,540
Capital lease obligations, net of current portion		<u>-</u>	<u>156</u>
		<u>4,518</u>	<u>4,696</u>
Commitments and contingencies			
Shareholders' deficiency:			
Common stock		1,465	1,465
Additional paid-in capital		140	140
Accumulated deficit		(4,562)	(3,722)
Deferred compensation obligation		936	936
Treasury stock, at cost		<u>(5,831)</u>	<u>(5,779)</u>
		<u>(7,852)</u>	<u>(6,960)</u>
	\$	<u><u>8,815</u></u>	<u><u>\$ 10,330</u></u>

See notes to consolidated and combined financial statements.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND  
VISIONQUEST NONPROFIT CORPORATION**

**CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS**

**YEARS ENDED JUNE 30, 2017 AND 2016  
(in thousands)**

	<u>2017</u>	<u>2016</u>
Revenues:		
Care and service	\$ 26,268	\$ 29,658
Education	1,136	2,454
Other	<u>1,701</u>	<u>2,255</u>
	<u>29,105</u>	<u>34,367</u>
Operating expenses:		
Personnel	20,704	21,980
Building	4,252	4,725
Contracted services	743	978
Equipment	597	669
Livestock	53	49
Vehicle	985	963
Youth	1,512	1,934
General and administrative	829	2,301
Gain on disposal of assets	<u>(290)</u>	<u>(366)</u>
	<u>29,385</u>	<u>33,233</u>
Income (loss) from operations	(280)	1,134
Interest expense	<u>(548)</u>	<u>(667)</u>
Income (loss) before income taxes	(828)	467
Income tax benefit (expense):		
Current	<u>(12)</u>	<u>12</u>
Net income (loss)	<u>\$ (840)</u>	<u>\$ 479</u>

See notes to consolidated and combined financial statements.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND  
VISIONQUEST NONPROFIT CORPORATION**

**CONSOLIDATED AND COMBINED STATEMENTS OF SHAREHOLDERS' DEFICIENCY**

**YEARS ENDED JUNE 30, 2017 AND 2016  
(in thousands, except share data)**

	Common stock, no par value			Additional paid-in capital	Accumulated deficit	Deferred compensation obligation		Treasury stock		Total
	Shares		Amount			Shares	Amount, at cost	Shares	Amount, at cost	
	Authorized	Issued								
Balance, June 30, 2015	10,000,000	2,189,245	\$ 1,465	\$ 140	\$ (4,201)	107,672	\$ 957	891,188	\$ (5,628)	\$ (7,267)
Purchase of shares for Rabbi Trust held in treasury stock	-	-	-	-	-	(2,977)	(21)	2,977	-	(21)
Purchase of treasury shares	-	-	-	-	-	-	-	37,907	(151)	(151)
Net income	-	-	-	-	479	-	-	-	-	479
Balance, June 30, 2016	10,000,000	2,189,245	\$ 1,465	\$ 140	\$ (3,722)	104,695	\$ 936	932,072	\$ (5,779)	\$ (6,960)
Purchase of treasury shares	-	-	-	-	-	-	-	10,801	(52)	(52)
Net loss	-	-	-	-	(840)	-	-	-	-	(840)
Balance, June 30, 2017	<u>10,000,000</u>	<u>2,189,245</u>	<u>\$ 1,465</u>	<u>\$ 140</u>	<u>\$ (4,562)</u>	<u>104,695</u>	<u>\$ 936</u>	<u>942,873</u>	<u>\$ (5,831)</u>	<u>\$ (7,852)</u>

See notes to consolidated and combined financial statements.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND  
VISIONQUEST NONPROFIT CORPORATION**

**CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2017 AND 2016**

(in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net income (loss)	\$ (840)	\$ 479
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Bad debt expense (recovery)	(1,220)	335
Depreciation and amortization	688	841
Gain on disposal of assets	(290)	(366)
Changes in operating assets and liabilities:		
Accounts receivable	2,823	639
Inventory	29	32
Prepaid expenses and deposits	156	50
Other assets	(9)	35
Accounts payable	(183)	(367)
Accrued expenses	170	(548)
Deferred revenue	(43)	(57)
Other current liabilities	(165)	66
Total adjustments	<u>1,956</u>	<u>660</u>
Net cash provided by operating activities	<u>1,116</u>	<u>1,139</u>
Cash flows from investing activities:		
Purchases of property and equipment	(252)	(259)
Proceeds from disposal of assets	<u>-</u>	<u>909</u>
Net cash provided by (used in) investing activities	<u>(252)</u>	<u>650</u>
Cash flows from financing activities:		
Net repayments on note payable, lender	(404)	(1,150)
Repayments related to checks to be funded	(76)	(136)
Borrowings on long-term debt	800	-
Principal payments on long-term debt	(350)	(558)
Repayments of capital lease obligations	(270)	(169)
Purchase of treasury stock	(52)	(151)
Purchase of shares for Rabbi Trust in treasury stock	<u>-</u>	<u>(21)</u>
Net cash used in financing activities	<u>(352)</u>	<u>(2,185)</u>
Net increase (decrease) in cash and cash equivalents	512	(396)
Cash and cash equivalents, beginning	<u>8</u>	<u>404</u>
Cash and cash equivalents, ending	<u>\$ 520</u>	<u>\$ 8</u>

See notes to consolidated and combined financial statements.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION**

**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2017 AND 2016**

1. Description of business and summary of significant accounting policies:

Description of business:

VisionQuest National, Ltd. (VisionQuest) and its wholly owned subsidiaries and VisionQuest Nonprofit Corporation (dba Lodgemakers) provide counseling, treatment, education and behavioral health services on a national basis to delinquent, dependent and at risk juveniles. Placements in treatment programs are made primarily through juvenile authorities or agencies of various governments. Arizona Hatters, Inc. (Hatters) is a retail distributor of western wear. Hatters operations were sold in November 2016 and the corporation became inactive. Lodgemakers is a separate nonprofit organization controlled by VisionQuest.

Principles of consolidation and combination:

The consolidated and combined financial statements of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation are comprised of VisionQuest and its wholly owned subsidiaries, VisionQuest Management Services Corporation, Lodgequest, VisionQuest of New Jersey, Inc., and Hatters, and its affiliate, Lodgemakers (collectively, "the Company"). All significant intercompany transactions and accounts have been eliminated in consolidation and combination.

Estimates:

The preparation of consolidated and combined financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition:

The Company recognizes revenue for care and services and education under contractual arrangements with local school districts and state, county and municipal government agencies for the provision of services to youths enrolled in the Company's programs. Revenue is recognized when services are rendered to enrolled youths. Other revenue is recognized when products are delivered and services are rendered.

Cash and cash equivalents:

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Company places its cash and cash equivalents with credit institutions. At times, such investments may be in excess of the FDIC insurance limit; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION**

**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

1. Description of business and summary of significant accounting policies (continued):

Accounts receivable:

Accounts receivable consists primarily of amounts billed and currently due from governmental agencies and include unbilled costs and accrued profits primarily related to revenues on contracts that have been recognized for accounting purposes, but not yet billed to the agencies. The Company grants unsecured credit to these agencies, generally without collateral or interest. The Company considers all accounts over 30 days to be past due and provides an allowance for doubtful accounts based on prior experience and management's assessment of the collectibility of existing specific accounts. Doubtful accounts are periodically reviewed for collectibility and charged off to the allowance when management determines that all reasonable collection efforts have been exhausted.

Property, equipment, depreciation and amortization:

Property and equipment are stated at cost. Expenditures for major improvements or items that benefit future periods are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets.

Property and equipment under capital lease are stated at cost or the assets' net present value of future lease payments at the date of the lease. Amortization is provided using the straight-line method over the estimated lives of the assets, or lease term, and is included with depreciation expense.

Stock option plan:

The Company recognizes compensation cost for stock-based awards using the fair value of the award at the date of grant. The Company recognizes stock-based compensation for newly awarded stock options and modifications on a straight-line basis over the vesting period.

Advertising:

The Company follows a policy of charging costs of advertising to expense as incurred. Total advertising expense was approximately \$18,000 and \$20,000 for 2017 and 2016.

Workers' compensation insurance:

The Company has purchased workers' compensation insurance from an independent third party under a retrospectively rated policy. Under the policy, premiums may be adjusted subsequent to the policy year-end depending upon actual claims experience. Management estimates its workers' compensation expense based on the premiums charged and does not believe actual expense would be materially different. Due to the nature of the expense, it is at least reasonably possible that the estimates used will change within the near term.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION**

**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

1. Description of business and summary of significant accounting policies (continued):

Income taxes:

Deferred income taxes are provided for temporary differences arising primarily from using the straight-line depreciation method for financial statements and accelerated methods of depreciation for income taxes. In addition, deferred income taxes are provided for temporary book and tax differences arising from the treatment of bad debt allowance, prepaid expenses, accrued expenses and involuntary conversion. Deferred income taxes are also recognized for net operating loss carryforwards that are available to offset future taxable income.

The tax provision differs from the expense that would result from applying statutory rates to income before income taxes because there are permanent differences between financial and tax reporting including nondeductible officers' life insurance premiums, meals, entertainment and penalties. In addition, differences also relate to management's election to provide an allowance for deferred income tax assets since its realization is not assured.

Lodgemakers was formed as a legal nonprofit organization; however, it has not elected tax exempt status and, therefore, it is treated as a corporation for tax purposes.

GAAP requires management to perform an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Company's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for federal and state purposes.

In 2017, the Company adopted FASB Accounting Standards Update 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The update eliminates the requirement to separate deferred income tax assets and liabilities into current and noncurrent amounts within a classified balance sheet. Under ASU 2015-17, the presentation of deferred income taxes is simplified, as all deferred income tax assets and liabilities are to be classified as noncurrent.

The Company is required to file federal and state income tax returns. Management has performed its evaluation of income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard.

From time to time, the Company may be subject to interest and penalties assessed by various taxing authorities, which have historically been insignificant. Penalties are classified as general and administrative expenses and interest as other expense, if they occur.

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2017 AND 2016

1. Description of business and summary of significant accounting policies (continued):

Subsequent events:

The Company's management has evaluated the events that have occurred subsequent to June 30, 2017 through October 9, 2018, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Accounts receivable:

	(in thousands)	
	2017	2016
Under 120 days	\$ 3,617	\$ 4,099
Over 120 days	736	2,980
Unbilled receivables	<u>50</u>	<u>1,079</u>
	4,403	8,158
Less allowance for doubtful accounts	<u>550</u>	<u>2,702</u>
	<u>\$ 3,853</u>	<u>\$ 5,456</u>

3. Property and equipment:

	(in thousands)	
	2017	2016
Land	\$ 192	\$ 192
Buildings and improvements	14,334	14,130
Equipment	5,116	5,178
Vehicles	1,016	850
Capital projects in progress	<u>12</u>	<u>10</u>
	20,670	20,360
Less accumulated depreciation and amortization	<u>17,337</u>	<u>16,779</u>
	<u>\$ 3,333</u>	<u>\$ 3,581</u>

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION**

**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

4. Accrued expenses:

	(in thousands)	
	<u>2017</u>	<u>2016</u>
Interest	\$ 794	746
Payroll	768	758
Payroll taxes and benefits	341	170
Property taxes	200	361
Other	<u>840</u>	<u>738</u>
	<u>\$ 2,943</u>	<u>\$ 2,773</u>

5. Note payable, lender:

The Company has a \$7,500,000 revolving line of credit agreement with Geminio Healthcare Financing, Inc. that matures in January 2019. The line is subject to a borrowing base that is specified in the line of credit agreement. Interest is payable monthly at the 30-day LIBOR plus 6%. At June 30, 2017 and 2016, the 30-day LIBOR was 1.22% and 0.469%. The line is collateralized by substantially all assets of the Company and personally guaranteed by two shareholders. The total balance outstanding on the line of credit at June 30, 2017 and 2016 was \$2,826,001 and \$3,230,165. The line of credit requires the Company to be in compliance with certain financial and nonfinancial covenants, including a minimum fixed charge coverage ratio, prohibiting the Company from incurring additional debt, consummating a sale or merger of the Company or from acquiring other entities without prior consent and approval. The loan covenants are tested quarterly. At June 30, 2017, the Company was not in compliance with the financial statement submission and minimum fixed charged coverage ratio covenants.

6. Long-term debt:

	(in thousands)	
	<u>2017</u>	<u>2016</u>
Note payable, shareholder, noninterest bearing, due February 2019, unsecured.	\$ 1,900	\$ 1,900
Note payable, shareholder, noninterest bearing, due in January 2016, unsecured. A new maturity date is currently being negotiated.	1,448	1,448
Note payable, shareholder, noninterest bearing, due January 2016, unsecured. A new maturity date is currently being negotiated.	130	130
Note payable, individual for stock repurchase, due on demand, unsecured.	5	5
Note payable, shareholder, bearing interest at 6%, due February 2017, unsecured. A new maturity date is currently being negotiated.	50	-

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION**

**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

6. Long-term debt (continued):

	(in thousands)	
	2017	2016
Note payable, BWL Investments, LLC, related party, payable in monthly installments of \$2,000 including interest at 6% through October 2017, unsecured. An additional \$400,000 loan was obtained from BWL Investments, LLC in October 2017 with a maturity of February 2018. A new maturity for both loans is currently being negotiated.	\$ 600	\$ -
Note payable, Parke Bank, payable in monthly installments of \$21,330 including interest at prime (4.25% and 3.5% at June 30, 2017 and 2016) plus 2.75% through February 2030, collateralized by certain assets of the company and personally guaranteed by a shareholder.	2,283	2,385
Note payable, Commerce Bank, payable in monthly installments of \$3,126 including interest at 5.5%, final payment due April 2019, collateralized by real and personal property.	325	343
Note payable, GE Capital, payable in monthly installments of \$3,024, including interest at 7.24% through August 2017, collateralized by modular office.	9	54
Note payable, Linton Food Services Equipment, payable in monthly noninterest-bearing installments of \$1,091 through January 2018, collateralized by equipment.	13	26
Note payable, CNH Industrial Capital America, payable in monthly noninterest-bearing installments of \$446 through August 2020, collateralized by equipment.	16	22
Note payable, GE Capital, payable in monthly installments of \$541, including interest at 2.76% through August 2017, collateralized by equipment.	1	7
Notes payable, Ally Bank, payable in aggregate monthly installments totaling \$2,009 including interest rates varying from 6.59% to 7.74% through March 2022, collateralized by vehicles.	97	-
Notes payable, Bank of the West, payable in aggregate monthly installments totaling \$2,711 including interest rates varying from 5.08% to 5.16% through April 2020, collateralized by vehicles.	85	-

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION**

**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

6. Long-term debt (continued):

	<u>(in thousands)</u>	
	<u>2017</u>	<u>2016</u>
Note payable, Sheffield Financial, payable in monthly installments of \$109 including interest at 0.46% through July 2021, collateralized by equipment.	\$ <u>5</u>	\$ <u>-</u>
	6,967	6,320
Less current portion	<u>2,449</u>	<u>1,780</u>
	<u>\$ 4,518</u>	<u>\$ 4,540</u>

Future maturities of long-term debt are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>(in thousands)</u>
2018	\$ 2,449
2019	2,379
2020	180
2021	159
2022	161
Thereafter	<u>1,639</u>
	<u>\$ 6,967</u>

7. Capital lease obligations:

The Company leases modular buildings and equipment under various direct-financing agreements that expire through June 30, 2018. The Company has recorded asset costs of \$1,121,351 and accumulated amortization of \$487,284 and \$374,848 at June 30, 2017 and 2016 related to these leases.

Future minimum annual payments under capital leases are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>(in thousands)</u>
2018	\$ 290
Less amounts representing interest	<u>32</u>
Present value of net minimum payments under capital leases	258
Less current portion	<u>258</u>
	<u>\$ -</u>

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2017 AND 2016

8. Commitments and contingencies:

Operating leases:

The Company leases office space, shop facilities and residential treatment facilities from current board members, shareholders and employees, some of whom are also officers of the Company, under operating leases with various terms expiring through June 2024. Total rent expense relating to these leases was approximately \$212,000 and \$351,000 for 2017 and 2016.

The Company also leases office and retail space, computer hardware and vehicles under operating leases with terms expiring through November 2035. Aggregate rental expense for all operating leases amounted to approximately \$2,574,000 and \$2,598,000 for 2017 and 2016.

The aggregate future minimum rentals on operating leases are as follows:

Year ending June 30,	Future minimum payments			Straight-line lease expense (in thousands)
	Related party (in thousands)	Other (in thousands)	Total (in thousands)	
2018	\$ 120	\$ 1,755	\$ 1,875	\$ 1,792
2019	120	1,326	1,446	1,323
2020	120	1,264	1,384	1,240
2021	120	852	972	883
2022	120	300	420	420
Thereafter	<u>140</u>	<u>2,310</u>	<u>2,450</u>	<u>2,453</u>
	<u>\$ 740</u>	<u>\$ 7,807</u>	<u>\$ 8,547</u>	<u>\$ 8,111</u>

Deferred rent of approximately \$436,000 and \$536,000 at June 30, 2017 and 2016 represents the difference between straight-line rent and minimum rental payments from the initial lease term and is included with accrued expenses.

Contingencies:

The Company is involved in various legal proceedings arising in the ordinary course of business. Management believes that these proceedings will not have an adverse, material affect on the Company's financial position or results of operations.

The Company participates in publicly funded contract programs that are subject to financial and compliance audits. The amount, if any, of expenditures or fees for units of service that may be disallowed by the contracting agencies pursuant to an audit cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION**

**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

9. Stock options:

The Company has granted nonqualified options to certain employees that may be exercised at any time during the holder's lifetime and up to one year after his/her death by heirs. At June 30, 2017 and 2016, 10,000 options are outstanding for the Plan and all options are fully vested and exercisable. For 2017 and 2016, there were no options granted, forfeited, expired or exercised. The option price is \$.49 per option at June 30, 2017 and 2016. The weighted-average remaining contractual term for the 10,000 options is 17.698 and 18.348 years at June 30, 2017 and 2016.

10. Deferred compensation:

Commencing October 2001, the Company re-issued a total of 125,028 shares of common stock to key members of management from treasury stock in exchange for past services. These agreements are valued at approximately \$1,075,000, based on a value per share ranging from \$5.78 to \$9.77, the current appraised values at the time of the agreements. All participants elected to contribute their shares of stock to the Company's Rabbi Trust Deferred Compensation Plan, which is held as treasury stock. The shares typically vest on an annual basis over a four-year period. Deferred compensation expense is recorded on a straight-line basis over the vesting period of the agreements. As of June 30, 2017 and 2016, all shares still outstanding are 100% vested. Consequently, no expense was recorded during 2017 and 2016 related to these agreements. During 2016, the Company repurchased 2,977 outstanding shares from participants. As of June 30, 2017 and 2016, the Rabbi Trust held 104,695 shares of the Company's common stock.

11. Related party transactions:

Stock purchase agreement:

In May 2009, the Company entered into a stock purchase agreement with one of its shareholders. Beginning in 2010 and for a period of nine additional years, the Company grants the shareholder a put right, which allows the shareholder to require the Company to purchase from the shareholder each fiscal year up to \$350,000 worth of the shareholder's common stock in the Company. The put right can be exercised by the shareholder delivering a written demand to purchase the shares. The purchase price shall be determined each year by the annual independent valuation on the Company and shall be paid in 24 equal payments over the course of the applicable fiscal year. The shareholder did not exercise the put option for the year ended June 30, 2017.

Sale of investment:

In November 2016, the Company sold all the assets of Hatters to an officer of the Company. In addition, the officer pays the Company for leasing two Company employees to operate Hatters. Total amounts paid for 2017 were approximately \$40,000.

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2017 AND 2016

11. Related party transactions (continued):

Shareholders' advances:

From time to time, the Company receives advances from its shareholders. These advances are short-term in nature, noninterest bearing and due on demand. The outstanding advances payable at June 30, 2017 and 2016 totaled \$0 and \$100,000 and are included in other current liabilities.

12. Retirement plan:

Plan provisions:

The Company has a 401(k) salary deferral plan (the 401k Plan). The Company's match on the 401k Plan is discretionary, determined quarterly and based on the Company's income for the quarter. In addition, the Company has an Employee Stock Ownership Plan (ESOP) covering substantially all employees of the Company. At the direction of the Board of Directors, the Company may contribute additional newly issued shares or cash to the ESOP. No contributions were made to the ESOP or 401k Plan for 2017 and 2016.

Allocations:

The value of the ESOP's investment in the Company's stock is determined by annual appraisals. The annual contribution to the ESOP, if any, plus or minus the change in value of its stock, is the amount that is allocated annually to the Plan's participants. Investment and other income are also allocated annually. Forfeitures are used to pay for plan expenses.

The ESOP shares of 379,278 and 390,079 are fully allocated as of June 30, 2017 and 2016.

In the event a terminated ESOP participant desires to sell his or her shares of the Company's stock, the Company is required to purchase the stock from the participant according to the Plan document. The fair value of the allocated ESOP shares is \$0 as of June 30, 2017 and 2016. The valuation of shares is based on the June 30, 2015 fair value per share.

13. Income taxes:

	<u>(in thousands)</u>
	<u>2017</u>
Deferred tax assets	\$ 7,749
Deferred tax liabilities	<u>(263)</u>
	7,486
Less valuation allowance	<u>(7,486)</u>
	<u>\$ -</u>

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION**

**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

13. Income taxes (continued):

	<u>(in thousands)</u>
	<u>2016</u>
Deferred tax assets	\$ 8,060
Deferred tax liabilities	<u>(409)</u>
	7,651
Less valuation allowance	<u>(7,651)</u>
	<u>\$ -</u>

The Company has approximately \$9,712,000 and \$22,450 of net operating loss carryforwards for federal and state income tax purposes available to offset future taxable income. The loss carryforwards begin to expire in 2027 for federal purposes and 2018 for state purposes.

The valuation allowance changed by \$165,000 and \$714,000 in 2017 and 2016.

14. Statement of cash flows:

Supplemental disclosure of cash flow information:

Cash paid for interest during 2017 and 2016 was approximately \$500,000 and \$627,000.

Noncash investing and financing information:

During 2017, the Company acquired vehicles with long-term financing of approximately \$197,000.

During 2016, the Company sold real estate property for \$2,500,000 of which \$1,681,044 was used to payoff existing debt on the property.

15. Concentrations of credit risk:

The Company's primary source of revenues are from governmental agencies. At June 30, 2017, two agencies accounted for 31% of trade accounts receivable and two agencies accounted for 40% of revenues for the year then ended. For 2016, two agencies accounted for 47% of revenue.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION**

**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

16. Management's plans:

As shown in the accompanying consolidated and combined financial statements as of June 30, 2017, the Company's current liabilities exceed its current assets by approximately \$7,128,000 and total liabilities exceeded its total assets by approximately \$7,852,000. Conversely, the Company had a net loss of approximately \$840,000 and cash flows from operations of approximately \$1,116,000 for 2017. Management of the Company has evaluated these conditions and has instituted the following operational changes.

The Company has completed the sale of its property in Elfrida, Arizona thereby eliminating all costs associated with that property. The sale involved the reduction of certain liabilities owed by the Company to the purchaser thereby reducing those liabilities. The Company is also in the process of negotiating a further reduction of liabilities in exchange for equity in the Company (in the form of stock). Finally, the Company has sold one of its two properties in Franklin, Pennsylvania thereby reducing its debt and slightly improving its cash flow. The Company is in the process of marketing for sale the second of its properties in Franklin, Pennsylvania.

To help address liquidity and cash flow issues, the Company has closed its Philadelphia Shelter program and the program operated in Franklin, Pennsylvania. As part of the closing of the Philadelphia Shelter, the Company renegotiated the remaining lease term and improved its cash flow slightly compared to the operations of the program at that site. The Company has also opened six new programs: a program for unaccompanied minors in Tucson, Arizona; a residential program for girls in Nacogdoches, Texas; a residential program for boys in Ft. Worth, Texas; a residential program for boys in Lufkin, Texas; a supervised visitation program in central Pennsylvania; and a group home in Tampa, Florida. Finally, the Company has temporarily cut salaries across the board to assist their efforts to eliminate liquidity and cash flow issues.

Management believes instituting these changes will increase profitability of the Company and alleviate the liquidity issues.

**VISIONQUEST NATIONAL, LTD. AND  
SUBSIDIARIES AND VISIONQUEST  
NONPROFIT CORPORATION**

**SINGLE AUDIT REPORTS**

**YEAR ENDED JUNE 30, 2017**

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SINGLE AUDIT REPORTS**

**YEAR ENDED JUNE 30, 2017**

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BEACHFLEISCHMAN

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors and Management  
VisionQuest National, Ltd. and Subsidiaries and  
VisionQuest Nonprofit Corporation  
Tucson, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated and combined financial statements of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation (the Company), which comprise the consolidated and combined balance sheet as of June 30, 2017, and the related consolidated and combined statements of operations, shareholders' equity and cash flows for the year then ended, and the related notes to the consolidated and combined financial statements, and have issued our report thereon dated October 9, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated and combined financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated and combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's consolidated and combined financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 through 2017-005 that we consider to be a material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Company's consolidated and combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-006 and 2017-007.

## **The Company's Response to Findings**

The Company's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Company's response was not subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Beah Fleischman PC". The signature is written in a cursive, flowing style.

Tucson, Arizona  
October 9, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors and Management  
VisionQuest National, Ltd. and Subsidiaries and  
VisionQuest Nonprofit Corporation  
Tucson, Arizona

**Report on Compliance for Each Major Federal Program**

We have audited VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation's (the Company) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended June 30, 2017. The Company's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Company's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Company's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-008. Our opinion on each major federal program is not modified with respect to this matter.

The Company's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Company's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstance for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the consolidated and combined financial statements of the Company as of and for the year ended June 30, 2017, and have issued our report thereon dated October 9, 2018, which contained an unmodified opinion on those consolidated and combined financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated and combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated and combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated and combined financial statements or to the consolidated and combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated and combined financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Beach Fleischman PC*

Tucson, Arizona  
October 9, 2018

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2017**

<u>Federal Grant/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>				
Title I Grants to Local Education Agencies	84.010			
Passed through:				
State of Pennsylvania:				
Capital Area Intermediate Unit		107-150615	-	\$ 447,269
Total U.S. Department of Education			-	447,269
<u>U.S. Department of Health and Human Services</u>				
Temporary Assistance for Needy Families	93.558			
Passed through:				
State of Arizona:				
Arizona Department of Child Safety		14-074702	-	402,457
State of Pennsylvania:				
Monroe County Juvenile Probation		Unknown	-	40,782
Philadelphia Department of Human Services		17-20233/ 17-20212	-	618,338
Total Temporary Assistance for Needy Families			-	1,061,577
Child Welfare Research Training or Demonstration	93.648			
Passed through:				
State of Pennsylvania:				
Philadelphia Department of Human Services		17-20233/ 17-202123	-	280,796
Foster Care - Title IV-E	93.658			
Passed through:				
State of Arizona:				
Arizona Department of Child Safety		Multiple	-	1,835,583
State of Florida:				
Child Net, Inc.		JJ212	-	1,533,613
State of Pennsylvania:				
Berks County		Unknown	-	11,500
Columbia County Children and Youth		Unknown	-	2,699
Delaware County Juvenile Probation		Unknown	-	36,096
Luzerne County CYS		Unknown	-	154,226
Philadelphia Department of Human Services		17-20233	-	3,234
Schuylkill County CYS		Unknown	-	57,600
Turning Points CYS		Unknown	-	344,608
Wyoming County JPO		Unknown	-	14,700
Total Foster Care - Title IV-E			-	3,993,859

See accompanying notes to schedule of expenditures of federal awards.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

<u>Federal Grant/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed through to subrecipients</u>	<u>Federal Expenditures</u>
Adoption Assistance	93.659			
Passed through:				
State of Arizona:				
Arizona Department of Child Safety		15-094727	<u>-</u>	<u>1,216</u>
Social Services Block Grant	93.667			
Passed through:				
State of Arizona:				
Arizona Department of Child Safety		14-074702	-	1,115,846
State of Florida:				
Child Net, Inc		JJ212	-	505,299
State of Delaware:				
DYRS Community Services		Unknown	<u>-</u>	<u>446,872</u>
Total Social Services Block Grant			<u>-</u>	<u>2,068,017</u>
Unaccompanied Alien Children Program	93.676			
Direct		90ZU0176-01-00	<u>-</u>	<u>284,677</u>
Total U.S. Department of Health and Human Services			<u>-</u>	<u>7,690,142</u>
Total expenditures of federal awards			<u>\$ -</u>	<u>\$ 8,137,411</u>

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2017**

1. Basis of presentation:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation (the Company) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation, it is not intended to and does not present the consolidated and combined financial position, changes in shareholders' equity or cash flows of the Company.

2. Summary of significant accounting policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Company elected to use the ten percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Catalog of Federal Domestic Assistance (CFDA) Numbers:

The program titles and CFDA numbers or federal identification numbers were obtained from the federal or pass-through grantor or the update to the 2017 *Catalog of Federal Domestic Assistance*.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2017**

**SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

The auditors' report expressed an unmodified opinion on the consolidated and combined financial statements of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation.

Internal control over financial reporting:

Material weakness(es) identified?	<u>  X  </u> Yes	<u>      </u> No
Significant deficiency(ies) identified?	<u>      </u> Yes	<u>  X  </u> No
Noncompliance material to financial statements noted?	<u>  X  </u> Yes	<u>      </u> No

*Federal Awards*

Internal control over major federal programs:

Material weakness(es) identified?	<u>      </u> Yes	<u>  X  </u> No
Significant deficiency(ies) identified?	<u>      </u> Yes	<u>  X  </u> No

The auditors' report on compliance for the major federal awards program of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation expressed an unmodified opinion on its major program.

Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)

  X   Yes        No

Identification of major federal programs:

CFDA 93.658	Foster Care - Title IV-E
CFDA 93.676	Unaccompanied Alien Children Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee?        Yes   X   No

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**FINDINGS - FINANCIAL STATEMENT AUDIT**

**Material Weaknesses:**

2017-001

*Condition and Criteria:*

We experienced significant delays in getting the annual financial statement and compliance audits completed.

*Effect:*

Without the proper accounting staff in place, complete account reconciliations and financial information cannot be provided timely.

*Cause:*

Limited accounting staff size and lack of a full-time Chief Financial Officer (CFO).

*Recommendation:*

We recommend the Company evaluate its current staffing and determine whether additional employees in the accounting department are deemed necessary including a full-time CFO.

*Auditee Response:*

We are currently in the process of hiring a full time CFO as well as a controller.

2017-002

*Condition and Criteria:*

We noted that management could not locate or did not have access to executed, final versions of certain agreements and documents including debt agreements.

*Effect:*

Without access to the proper agreements and documents, the accounting department may not be aware of critical information necessary to prepare accurate financial statements and comply with agreements.

*Cause:*

Limited accounting staff size and lack of procedures in place.

*Recommendation:*

We recommend the Company implement policies and procedures to improve retention, maintenance and sharing of critical agreements and documents.

*Auditee Response:*

We will complete an inventory of all executed contracts and agreements. The Company will assign the task of maintaining the current file to the controller. In addition, we will provide a policy and a procedure to all management employees concerning the filing of contracts and agreements.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

Material Weaknesses (continued):

2017-003

*Condition and Criteria:*

We noted there is a lack of documentary evidence pertaining to the review of the Company's monthly bank reconciliations by an appropriate member of management.

*Effect:*

Without proper review of monthly bank reconciliations, errors may occur and not be detected and corrected.

*Cause:*

Limited accounting staff size and lack of procedures in place.

*Recommendation:*

We recommend the Company implement policies and procedures to ensure bank reconciliations are reviewed by the appropriate member of management.

*Auditee Response:*

The Company has assigned the controller the duty of reviewing the bank reconciliations on a monthly basis. The controller will verify the completeness of the reconciliation and report to the CFO as part of the month-end close procedure.

2017-004

*Condition and Criteria:*

We noted there is a lack of documentary evidence pertaining to the supervisory review and authorization of significant manual journal entries for posting to the Company's general ledger.

*Effect:*

Without proper review of manual journal entries, errors may occur and not be detected and corrected.

*Cause:*

Limited accounting staff size and lack of procedures in place.

*Recommendation:*

We recommend the Company implement policies and procedures to ensure that manual journal entries are reviewed and approved timely.

*Auditee response:*

The Company currently has a policy that all manual journal entries be approved by the assistant controller or the CFO. On a monthly basis as part of the close procedure, the CFO will review all manual journal entries for compliance to the policy.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

Material Weaknesses (continued):

2017-005

*Condition and Criteria:*

We noted that certain employee time sheets did not contain a supervisor's approval. We selected 37 time sheets and the Company was not able to demonstrate supervisory approval for 21 of the time sheets tested.

*Effect:*

Evidence of time sheet approval is not documented on employee time sheets.

*Cause:*

Supervisory staff are not following policies in place.

*Recommendation:*

We recommend the Company follow current policies and procedures in documenting supervisory approval on time sheets.

*Auditee Response:*

The Company is in the process of providing policies and procedures to manage the time sheet approval process. We will also provide a training to all management staff as to the procedure for handling time sheet approval.

Other findings:

2017-006

*Condition and Criteria:*

We noted that a certain disbursement was not coded to the proper expense account. We selected 37 disbursements and noted that 1 was not properly coded.

*Effect:*

Disbursement was coded to the incorrect expense account.

*Cause:*

Human error occurred and was not detected.

*Recommendation:*

We recommend the Company pay closer attention when reviewing monthly financials by cost center to identify any unusual fluctuations that may result from miscodings.

*Auditee Response:*

The Company is in the process of providing additional training to program chiefs on the use of chart of accounts.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

Other findings (continued):

2017-007

*Condition and Criteria:*

We noted that certain disbursements did not have payment requisition forms along with a supervisor's approval. We selected 37 disbursements and noted and 27 did not have payment requisition forms completed and thirty two did not have supervisor approval.

*Effect:*

Evidence of requisition forms completed was not provided along with evidence of supervisory approval not documented.

*Cause:*

Staff are not following policies in place.

*Recommendation:*

We recommend the Company follow current policies and procedures in obtaining requisition forms and documenting supervisory approval on disbursements.

*Auditee Response:*

The Company is in the process of providing procedure manual and training to program chiefs on the purchasing and approval process.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

Questioned  
Costs

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**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

2017-008 Foster Care - Title IV-E - CFDA 93.658  
Unaccompanied Alien Children Program - CFDA 93.676  
- Year ended June 30, 2017

*Condition and criteria:*

Reporting requirements stipulated by the Uniform Guidance should be adhered to. The Single Audit shall be completed and the data collection form shall be submitted within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Additionally, two agencies require annual audit reports to be submitted 120 and 180 days after year end.

*Effect:*

The annual audit, Single Audit and the data collection form were not completed by the due required deadline.

*Population and items tested:*

Not applicable

None

*Cause:*

Due to the delay in the preparation of the SEFA and the compiling of records and supporting documentation related to the financial statement and compliance audit, the Company was not in compliance with the reporting requirement.

*Recommendation:*

We recommend the the Company complete its annual audit and Single Audit and submit the related data collection form to the federal clearinghouse by the required deadline.

*Auditee response:*

We agree and will schedule audit work on a timely basis and provide additional emphasis to the accounting staff to complete the audit according to the schedule.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

**YEAR ENDED JUNE 30, 2017**

**FINANCIAL STATEMENT AUDIT FINDINGS**

- Finding 2016-001      *Condition:*  
*Accounting Oversight Function* - Auditor experienced significant delays in getting the annual financial statement and compliance audits completed.
- Recommendation:*  
The auditor recommended the Company hire a CFO and consider hiring additional employees in the accounting department.
- Current status:*  
The current status finding 2017-001 also applied to this finding.
- Finding 2016-002      *Condition:*  
*Improve Record Retention and Maintenance of Critical Agreements and Accounting Data* - Auditor instances where management could not locate final versions of certain agreements and documents.
- Recommendation:*  
The auditor recommended that the Company implement policies and procedures to improve retention and maintenance of critical agreements and accounting data.
- Current status:*  
The current status finding 2017-002 also applied to this finding.
- Finding 2016-003      *Condition:*  
*Enhance Controls and Maintenance of Records over Payroll* - Auditor noted instances were employee personnel files did not contain complete documentation supporting pay rates.
- Recommendation:*  
The auditor recommended that the Company implement policies and procedures to improve retention and maintenance of pay rate information in the employee personnel files.
- Current status:*  
No similar instances were noted in the current year.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)**

Finding 2016-004

*Condition:*

*Evidence Review of Bank Reconciliations* - Auditor noted lack of documentary evidence pertaining to the review of the Company's monthly bank reconciliations.

*Recommendation:*

The auditor recommended that all bank reconciliations be properly reviewed by an appropriate member of management in a timely manner.

*Current status:*

The current status at finding 2017-003 also applies to this finding.

Finding 2016-005

*Condition:*

*Enhance Controls over Manual Journal Entries* - Auditor noted instances where there was a lack of evidence pertaining to the supervisory review of significant manual journal entries.

*Recommendation:*

The auditor recommended that manual journal entries be properly reviewed and approved.

*Current status:*

The current status at finding 2017-004 also applies to this finding.

**MAJOR FEDERAL AWARD PROGRAM AUDIT FINDINGS**

Finding 2016-006

Title I Grants to Local Education Agencies - CFDA No. 84.010, Temporary Assistance for Needy Families (TANF Cluster) - CFDA No. 93.558 and Social Services Block Grant - CFDA No. 93.667.

*Condition:*

The Company did not submit its single audit by the required deadline.

*Recommendation:*

The auditor recommended the Company complete its annual Single Audit and submit the related data collection form to the federal clearinghouse by the required deadline.

*Current status:*

The current status at finding 2017-008 also applies to this finding.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**MAJOR FEDERAL AWARD PROGRAM AUDIT FINDINGS (CONTINUED)**

Finding 2016-007      Title I Grants to Local Education Agencies - CFDA No. 84.010

*Condition:*

The auditor noted during their testing of the cash management requirement, certain disbursements selected for testing were billed to the funding agency prior to the Company's payment of the related vendor invoice.

*Recommendation:*

The auditor recommended that payments for expenses be made to vendors prior to the expenses being billed to funding agencies.

*Current status:*

No similar instances were noted in the current year.

Finding 2016-008      Social Services Block Grant - CFDA No. 93.667

*Condition:*

The auditor noted during their testing of the reporting compliance requirement that reporting requirements stipulated by the grantor were not adhered to.

*Recommendation:*

The auditor recommended that management review all of its government contracts and assign appropriate individuals in the Company to prepare, review, approve, and submit required reports to agencies.

*Current status:*

No similar instances were noted in the current year.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES  
AND VISIONQUEST NONPROFIT CORPORATION**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**MAJOR FEDERAL AWARD PROGRAM AUDIT FINDINGS (CONTINUED)**

Finding 2016-009      Title I Grants to Local Education Agencies - CFDA No. 84.010

*Condition:*

The auditor noted during their testing that employee time sheets and employee federal clearance forms were not available.

*Recommendation:*

The auditor recommended that policies and procedures be established and implemented.

*Current status:*

No similar instances were noted in the current year.

Finding 2016-010      Social Services Block Grant - CFDA No. 93.667

*Condition:*

The auditor noted during their testing that adjudicated claims were not supported by appropriate documentation and support for eligibility of individuals.

*Recommendation:*

The auditor recommended that policies and procedures be established and implemented.

*Current status:*

No similar instances were noted in the current year.



In accordance with the requirements of *Government Auditing Standards* and the Uniform Guidance, we provide our response to the finding referenced in the Single Audit reporting package for the year ended June 30, 2017 as follows:

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2017-001

We concur with the recommendation.

A CFO, a Corporate Controller and a Financial Analyst were hired in October 2018 and a Staff Accountant was hired in July 2018. An evaluation of the accounting staff is still in progress.

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2017-002

We concur with the recommendation.

We have completed an inventory of all final versions of executed contracts and agreements. The company has assigned the task of maintaining the contract files to Ann Ranalli and all debt related agreements to the Controller. In addition, we provided a policy and a procedure to all management employees concerning the filing of contracts and agreements.

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2017-003

We concur with the recommendation.

The company has assigned the Staff Accountant the duty of completing the bank reconciliations on a monthly basis. The Controller will verify the completeness of the reconciliation and report to the CFO as part of the month end close procedure.

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2017-004

We concur with the recommendation.

The company currently has a policy that all manual journal entries be approved by the Controller or the CFO. On a monthly basis as part of the close procedure the CFO will review all manual journal entries for compliance to the policy.

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2017-005

We concur with the recommendation.

The Company is in the process of providing policies and procedures to manage the time sheet approval process. State Controllers will be training all management staff as to the procedure for handling time sheet approval.



FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2017-006

We concur with the recommendation.

The Company is in the process of providing additional training to program chiefs on the use of the chart of accounts.

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2017-007

We concur with the recommendation.

We have provided additional training to program chiefs on the purchasing and approval process subsequent to this audit.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT : FINDING 2017-008

We concur with the recommendation.

Through the hiring of additional accounting staff we will be able to complete the audit work on a timely basis.